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FINANCIAL DIGEST

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UP OR DOWN ?

Although we are more than two-thirds of the way through the fourth quarter, disagreement has developed among economists over the direction of business. Some believe that the gross national product adjusted for inflation has risen from the third quarter, or at the worst, flattened. Others feel that the economy has turned down once again—and by a substantial amount. This disagreement is most disconcerting. Economists do not claim total prescience in their ability to look ahead, but they generally are able to forecast reasonably well the quarter in which they put their numbers together.

Perhaps a reasoned analysis will shed some light on the economy's current direction. One of the more volatile elements in the economy tends to be the rate of business inventory accumulation. For whatever the reason, business generally has trouble achieving inventory targets—especially when the economy is floundering, as it has done for most of this year. The sharp drop in sales in the second quarter caused the rate of stockpiling to jump 75 per cent compared with the first. The rebound in sales in the third quarter helped business trim the pace of inventory accumulation by a substantial 55 per cent.

The latest figures from the key manufacturing sector show that business continues to keep a close watch on inventories. Although stocks rose 0.9 per cent in October compared with September, seasonally adjusted, business sales rose twice as fast, with the result that the inventory-sales ratio in this important sector fell to 1.53 months'. This is still higher than the average I-S ratio of 1.51 months' posted during the first nine months of this year, as well as the 1.52 months' I-S ratio reported for the entire year 1978. However, it is below levels reached during each of the previous business recessions—including the 1973-75 recession, when inflation was boosting the dollar value of sales in much the same way it is doing now.

Thus inventory building is unlikely to impart strength to the economy near-term. If the real GNP is to rise, increases must occur in final sales. They are not. As a matter of fact, all indications are that final sales are falling precipitously. In the key automobile sector, for example, the annual selling rate of new domestic cars during October and November averaged 7.2 million units, 1.4 million units below the third quarter's 8.6 million unit pace. Studies by this Bank show that each one-million unit drop in automobile sales takes away nearly $18 billion from the real GNP. As long as auto sales run at this rate through the month of December and there is no offsetting strength elsewhere in retail sales, the fourth quarter's real gross national product may well drop by an annual rate of close to four per cent compared with the third.

If this is not enough proof that the economy is weakening in the current quarter, the behavior of the government's index of leading economic indicators should be. October's 0.9 per cent drop in this index brings the total decline to 3.3 per cent since it peaked in October, 1978. While this is half the smallest decline registered during each of the six previous postwar recessions, and about one sixth of the drop registered during the 1973-75 recession, it is sufficient to indicate that further weakness lies ahead for the U.S. economy.

FED POLICY STEADY

It is this softness in economic activity—not any sudden easing in Federal Reserve monetary policy—that has been responsible for the recent declines in money-market interest rates (Financial Digest—November 19, 1979). As long as the Fed keeps the quantity of money growing within its announced target ranges, monetary policy cannot be said to have eased. Unfortunately, this message has not yet registered in the minds of participants in foreign exchange markets. Last week they sold off the dollar because they thought the decline in money-market interest rates in the U.S. was a sign of monetary ease while the rate of inflation was still high. Recent increases in short-term interest rates posted by our major trading partners have added to the downward pressure on the dollar. Since the beginning of November, the discount rate has gone up in Germany, the Netherlands, Switzerland, England, Italy, and Japan.

SELECTED FEDERAL RESERVE DATA

(Weekly Averages of Daily Figures—Millions of Dollars)

	Week Ending 12/5/79	Change Since Week Ago	Change Since Year Ago
Reserve Bank Credit:			
U.S. Gov'ts and Agencies Owned Outright & RPs	125,870	+2,417	+ 6,264
Member Bank Borrowings	1,819	— 152	+ 1,121
Float	5,076	—2,472	— 1,447
Total Reserve Bank Credit	137,906	— 286	+ 8,408
Treasury Deposits with Federal Reserve Banks	2,595	— 503	— 2,704
Currency Outside Banks	111,184	— 526	+ 9,148
Member Bank Reserves:			
Required	43,379	+ 492	+ 2,002
Excess (Deficiency)	261	+ 126	+ 155
Total Reserves Held	43,640	+ 618	+ 2,157
Net Borrowed Reserves	1,458	— 242	+ 1,016
Gov'ts held for Foreign Acct. by F.R. Banks (End-of-Week)	76,002	+1,529	—16,608
		r-Revised	
	11/28/79		
Money Supply ($ Bil., SA) M1	378.9	— 1.1	+5.2%
Money Supply ($ Bil., SA) M2	943.9	— 0.8	+8.0%

NEW YORK MONEY MARKET

Offering Rates 12/7/79	3 Months	6 Months	1 Year
‡U.S. Treasury Bills	11.76%	11.59%	11.71%
*Federal Agencies	12.12	12.20	11.56
*Project Notes—Tax Free (46% Taxable Equivalent)	11.85	11.38	n.a.
Negotiable Time CDs Manufacturers Hanover	Rates By Arrangement		
*Secondary Market—Prime	12.50	12.50	

‡Finance Company Paper—Prime		‡*Bankers' Acceptances	
5- 29 days	12.75%	Jan.	12.25%
30- 59 days	13.00	Feb.	12.70
60- 89 days	12.38	Mar.	12.65
90-239 days	11.75	Apr.	12.55
240-270 days	9.00	May	12.45
		June	12.30

‡Industrial Paper—Prime		†Federal Funds	
30- 89 days	13.00%	Effective Rate	13.65%
90-120 days	12.58		

‡Discount Basis. *Subject to Availability. †Estimated.

SELECTED BUSINESS INDICATORS

(All Dollar Figures in Billions)

	Latest Period or End of Period		Previous Period	Year Ago Period
Gross National Product (Current Dollars)*	3rd Q'79	$ 2,395	$ 2,330	$ 2,160
Gross National Product (1972 Dollars)*	3rd Q'79	$ 1,434	$ 1,422	$ 1,407
Percent Change, Annual Rate	3rd Q'79	3.4%	—2.3%	3.5%
Change in Consumer Prices (all urban consumers)*	Oct. '79	12.0%	13.2%	9.6%
Change in Producer Prices*	Nov. '79n	15.6%	12.0%	8.4%
Civilian Employment (Thousands of Persons)†	Nov. '79n	97,646	97,293	97,751
Unemployment as % of Civilian Labor Force†	Nov. '79n	5.8%	6.0%	5.8%
Personal Income*	Oct. '79	$ 1,975	$ 1,959	$ 1,781
Leading Indicators Composite Index (1967=100)†	Oct. '79n	138.8	140.1	143.6
Industrial Production Index (1967=100)†	Oct. '79	152.5	152.3	149.7
Net Change in Consumer Instalment Credit†	Oct. 79n	$ 2.19	$ 4.45	$ 3.38
U.S. Merchandise Trade Balance†	Oct. '79	—$ 2.02	—$ 2.83	—$ 1.95
Plant and Equipment Expenditures*	1st Q'80n	$189.32(a)	$184.32(a)	$165.94
Private Housing Starts (Thousands of Units)*	Oct. '79	1,760	1,911	2,054
New Construction Expenditures*	Oct. '79n	$ 236.0	$ 234.6	$ 217.8
Total Business Inventories†	Sept. '79	$ 417.3	$ 416.9	$ 369.2
Total Business Sales†	Sept. '79	$ 297.1	$ 292.9	$ 260.1

*Seasonally adjusted annual rate. †Seasonally adjusted. n-Newly reported figure. a-Anticipated.

SHORT TERM PAPER OUTSTANDING

(Millions of Dollars)

	Latest Week	Change Since Week Ago	Change Since Year Ago
Negotiable Time CDs Weekly Reporting Banks			
Nationwide (11/28/79)	93,232	+ 368	— 1,457
New York City (12/5/79)	20,191	+ 81	— 9,002
Commercial Paper (11/28/79)	111,287	+ 269	+29,256

BANK LOANS

(Millions of Dollars)

Weekly Reporting Large Commercial Banks	Commercial and Industrial Loans Latest Week	Change Since Week Ago	Change Since Year Ago
Nationwide (11/28/79)	150,903	—1,059	+19,907
New York City (12/5/79)	45,557	+ 767	+ 7,011
	Total Loans Gross Adjusted		
	Latest Week	Change Since Week Ago	Change Since Year Ago
Nationwide (11/28/79)	385,404	— 734	+50,332
New York City (12/5/79)	88,338	+1,617	+10,409

SECURITY MARKETS

	Friday 12/7/79	Change Since Week Ago	Change Since Year Ago
U. S. Governments, Closing Bid Prices:			
90-Day Bills (Discount Basis)	11.96%	+ .50	+ 3.02
180-Day Bills (Discount Basis)	11.73	+ .28	+ 2.47
Longest Bills (Discount Basis)	10.81	— .05	+ 1.51
12⅛s 11/30/81	101.18	+ 8/32	
11⅝s 5/15/83	103.12	+ 10/32	
10¾s 11/15/89	102.26	+ 18/32	
10⅛s 11/15/94	99.10	+ 2/32	
10⅜s 11/15/09	103.8	+ 16/32	
Municipals:			
Bond Buyer—20 Bond Index* (12/6/79)	7.17%	— .09	+ .88
Blue List Total ($ Million)	$ 768	+$ 85	—$ 107
30-Day Visible Supply ($ Million)	$1,047	—$ 597	—$ 774
Total	$1,815	—$ 512	—$ 881
Corporates:			
Moody's Aa Composite (12/6/79)	11.09%	+ .03	+ 1.82
Money Mgr.—30-Day Supply ($ Million)	$ 819	—$ 30	—$ 14
Stocks:			
Dow-Jones Averages			
Industrials	833.19	+ 10.84	+ 21.34
Transportation	254.29	+ 5.80	+ 38.86
Utilities	108.19	+ 0.58	+ 7.11
65 Stocks	298.66	+ 4.32	+ 2.74
Standard and Poor's 500 Stocks	107.52	+ 1.36	+ 10.89
N.Y.S.E. Composite Index	61.56	+ 0.85	+ 7.50
N.Y.S.E. Avg. Daily Vol. for Week (000's)	36,410	— 2,976	+12,974

*46% Taxable Equivalent 13.28%

INTERNATIONAL RATES

	Friday 12/7/79	Week Ago
EURODOLLAR DEPOSIT RATES (bid)		
Overnight	13.00%	12.88%
1 month	13.75	13.75
3 months	14.00	14.38
6 months	13.56	14.25
1 year	12.38	13.00
EURODOLLAR BONDS Average Yield		
Medium Term (5 to 7 yrs.)	11.40%	11.45%
Long Term (10 to 15 yrs.)	11.45	11.35
FOREIGN EXCHANGE SPOT RATES New York Opening (in dollars)		
Belgium	.03498	.03559
Canada	.8611	.8544
France	.2423	.2455
Germany	.5697	.5776
Italy	.001219	.001222
Japan	.004177	.004008
Mexico	.04380	.04372
Netherlands	.5140	.5182
Switzerland	.6167	.6211
U.K.	2.1685	2.1945

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